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PP RUEHDBU RUEHHM RUEHJO RUEHLN RUEHPOD RUEHSK RUEHVK RUEHYG  
DE RUEHMO #2924/01 3361313  
ZNR UUUUU ZZH  
P 021313Z DEC 09  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC PRIORITY 5561  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHXI/LABOR COLLECTIVE PRIORITY  
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 MOSCOW 002924

SENSITIVE  
SIPDIS

STATE FOR EUR/RUS, DRL  
DOL FOR BRUMFIELD

E.O. 12958: N/A  
TAGS: [ELAB](#) [ECON](#) [EIND](#) [PGOV](#) [SOCI](#) [RS](#)  
SUBJECT: RUSSIAN EMPLOYERS FRET OVER WORKFORCE DECLINE

REF: A. MOSCOW 1073  
[1](#)B. 07 MOSCOW 5522

SENSITIVE BUT UNCLASSIFIED: PLEASE PROTECT ACCORDINGLY

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SUMMARY  
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[1](#)1. (SBU) By 2025, Russia will lose an estimated 14 million members of its working age population. Employers are struggling to cope with intensified competition for available workers and the divergence of labor supply and demand in various sectors and regions. While the GOR's 2025 Demographic Policy Concept includes a variety of public health measures targeting reduced workforce mortality, officials remain disinclined to solve the labor deficit through increased immigration. Recent data also underscored the low productivity of Russia's existing workforce compared to developed countries. Favoring a public health solution, the GOR is unlikely to take the steps necessary to address Russia's poor productivity performance. End Summary.

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BUSINESSES FACE SHRINKING WORKFORCE  
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[1](#)2. (SBU) Russian employers face continued workforce decline in the near future despite recent positive, demographic trends in terms of birthrates and population growth. In 2007, the working age population in Russia, i.e. men ages 16-60 and women 16-55, reached an historic high of more than 90 million individuals. However, the GOR statistics service (Rosstat) estimates that the working age population will decrease by more than one million each year from 2013-2018. By 2025, Rosstat forecasts a working age population decline of 14 million from current levels. In a recent report, Mikhail Denisenko of the Demographics Institute of the Higher School of Economics (HSE) asserted that, given the decline in the population of reproductive age women that started in 2004, Russia would approach the end of the "demographic dividend" brought about by higher birth rates in the 1980s by [1](#)2010.

[1](#)3. (SBU) At a November meeting of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Social and Demographic Policy Committee, members expressed concern over future workforce qualifications and correspondence to labor demand in addition to the overall size of the working age population. Fyodr Prokopov, RSPP Executive Vice President, emphasized employers' concerns regarding the future availability of educated workers with the necessary skills in addition to availability of workers in general (reftel A). Prokopov also underscored the importance of the geographic

concentration of the workforce compared to areas with high labor demand. He stated that declining populations and internal migration to urban centers left employers in many regions outside Moscow, St. Petersburg, and other major cities to contend with a dearth of available workers. Businesses in these areas are increasing their labor costs as competition over a limited pool of workers intensifies. In addition, Prokopov made particular note of the impending need to identify technological alternatives to human inputs in physically demanding sectors, specifically construction and agriculture, which are not attractive to new workers. He stated that approximately 90 percent of the current agricultural workforce would reach retirement age by 2018-20.

(Note: President Medvedev identified the agricultural sector as one in which Russia enjoyed a comparative advantage in his recent annual address. End Note).

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GOR PROMOTES LABOR GROWTH, BUT NOT THROUGH MIGRATION  
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14. (SBU) In recent years, the GOR has prioritized reversing Russia's negative demographic trends, including stimulating workforce growth. In 2007, then President Putin signed the GOR's 2025 Demographic Policy Concept with the objective of reversing population decline and increasing life expectancy (reftel B). Within the framework of the 2025 Concept, the GOR is attempting to reduce mortality rates in the working age population through various measures, including cardiovascular disease treatment and prevention; increased road safety; reducing the number of industrial accidents; and prophylactic measures targeting cancer, HIV/AIDS, and

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tuberculosis. Following the implementation of the 2025 Concept, the GOR joined the World Health Organization Framework Convention on Tobacco Control in 2008 and launched an anti-alcohol campaign in August 2009. Other GOR attempts to develop the labor supply include increasing employment opportunities for retirement-age workers and extending working hours.

15. (SBU) Despite experts' claims that stabilizing the population will require immigration on a massive scale, the GOR and the Russian population remain generally disinclined to immigration as a potential solution. According to a recent HSE report, stabilizing the population by 2015, as set forth in the 2025 Concept, would require annual inflows of 200,000 migrants through 2016 and over 300,000 through 2025. The report also highlighted the tendency on the Russian labor market for Russian workers to occupy positions with higher qualification requirements, while migrants often fill lower-skilled vacancies that many Russians would not accept. (Note: According to 2007 Rosstat data, 40 percent of migrants worked in the construction sector, while another 19 percent worked in trade. End Note.) In 2007, the GOR significantly simplified the registration and work permit processes for migrants from the CIS. However, the Federal Migration Service (FMS) has since lowered the number of job permits for foreigners. In addition, while the Russian population would generally be open to future repatriation of ethnic Russians as took place in the 1990s, Russians remain uneasy about the prospect of significant inflows of non-Russian immigrants.

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THE LABOR PRODUCTIVITY OPTION  
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16. (SBU) Although faced with a labor deficit, Russia fails to use the workforce it has efficiently. According to a 2008 UNDP report, Russia's population ranks in the top 15 percent of developed countries by education level but among the lowest 15 percent in terms of the contribution of human capital to national wealth. Assessing the reliance of its economy on natural resources as opposed to its intangible

assets, UNDP experts compared Russia to Moldova or Nigeria. In November, RSPP President Alexander Shokhin published an article in Vedomosti, noting that labor productivity in many sectors of the Russian economy -- particularly the GOR's priority sectors -- is far lower than in developed countries.

On average, Russian labor productivity is 30 percent that of the U.S. According to Shokhin, improving Russia's labor productivity will require modernization of industrial technology and infrastructure, upgrading the skills of its workforce, and providing for increased competition. However, the room for improvement is vast, especially given the results of recent studies such as those conducted by HSE showing that productivity in the top 20 percent of Russian firms is 6-12 times higher than in the bottom 20 percent.

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COMMENT  
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17. (SBU) The aging of Russia's population will increase the burden on a shrinking workforce of supporting a growing number of pensioners. The GOR is likely to continue relying on public health initiatives targeting increased birthrates and reduced mortality as the primary means of addressing Russia's demographic situation. However, higher birthrates, which experts speculate are temporary and not sustainable, will not solve the labor deficit facing employers over the coming decade. Modernizing Russia's antiquated industries to improve productivity would mitigate the impact of the labor deficit. Unfortunately, despite the right rhetoric from the highest levels, the GOR has not yet taken the concrete actions to promote innovation and competition that would raise labor productivity. End Comment.  
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